



**STATE OF INDIANA REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITORS' REPORT**

**June 30, 2006 and 2005**

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

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## *Independent Auditors' Report*

Indiana Finance Authority  
State Revolving Fund Programs

We have audited the accompanying basic combined financial statements of the State Revolving Fund Programs, an enterprise fund of the Indiana Finance Authority, as of and for the years ended June 30, 2006 and 2005, presented on pages 7 - 23. These combined financial statements are the responsibility of the Programs' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the State Revolving Fund Programs, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the Indiana Finance Authority, as of June 30, 2006, and the changes in its financial position or its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund Programs at June 30, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis presented on pages 3-6 is not a required part of the basic combined financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2006, on our consideration of the State Revolving Fund Programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

*Katz, Sapp & Miller, LLP*

Indianapolis, Indiana  
October 11, 2006

# STATE REVOLVING FUND PROGRAMS (ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the State Revolving Fund Programs (the SRF Programs), we offer readers of the SRF Programs' combined financial statements this narrative overview of Management's Discussion and Analysis (MD&A) of the financial activities of the SRF Programs for the fiscal year ended June 30, 2006. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are approximate.

### FINANCIAL HIGHLIGHTS

The SRF Programs' total net assets increased by \$58.4 million during the current fiscal year from \$703.8 million to \$762.2 million. Of this amount, \$33.3 million consists of capital contributions (grants) from EPA. All of these net assets are restricted for water pollution and drinking water projects and related program purposes.

The SRF Programs' debt increased by \$185.8 million during the current fiscal year. The net increase in debt is the result of proceeds of \$512.3 million related to the issuance of Series 2005A refunding bonds and new Series 2006A bonds during the current fiscal year. New debt was offset by a combination of scheduled principal payments and payments made to escrow related to the refunding bonds totaling \$326.5 million.

The SRF Programs were able to issue \$170.9 million of loans to participants during the current year. Loan commitments can be found in Note 3 to the combined financial statements on page 13 of this report.

### OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the SRF Programs' basic combined financial statements (Report). The accompanying Report only provides information on the financial activities associated with the SRF Programs which are an enterprise fund of the Indiana Finance Authority, where financial transactions are reported as business-type activities. The combined financial statements do not represent a comprehensive annual financial report of the Indiana Finance Authority.

Enterprise Funds are used to report any activities for which income fees are charged to external users for goods and services. In addition, Enterprise Funds must be used in situations where debt is backed solely by fees and charges. An Enterprise Fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting.

The SRF Programs' basic combined financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and the notes to the financial statements. These combined financial statements can be found on pages 6-8 of this report and are summarized below:

- The *combined statements of net assets* present information on all of the SRF Programs' assets and liabilities, with the difference between the two reported as net assets.
- The *combined statements of revenues, expenses and changes in net assets* present information showing how the SRF Programs' net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- In contrast, the *combined statements of cash flows* are concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

## OVERVIEW OF THE COMBINED FINANCIAL STATEMENTS (CONTINUED)

The Report also contains other supplementary information in addition to the basic combined financial statements themselves.

The *notes to the combined financial statements* provide additional information that is essential to a full understanding of the data provided in the combined financial statements. The notes to the combined financial statements can be found on pages 9-22 of this report.

In addition to the basic combined financial statements and accompanying notes, this report also presents combining schedules on pages 24-26. These combining schedules are not a required part of the basic combined financial statements, but they provide detailed financial statement information for each individual program. The combining schedules are included to provide other useful information for the readers of the basic combined financial statements.

## FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the government enterprise's financial position. In the case of the SRF Programs, assets exceeded liabilities by \$762.2 million at the close of the most recent fiscal year.

### State Revolving Fund Programs' Net Assets (In Thousands of Dollars)

	2006	June 30, 2005	2004
Current assets	\$ 739,384	\$ 641,163	\$ 767,091
Noncurrent assets	<u>1,683,102</u>	<u>1,535,830</u>	<u>1,407,989</u>
Total Assets	<u>2,422,486</u>	<u>2,176,993</u>	<u>2,175,080</u>
Current liabilities	90,916	76,018	63,385
Long-term liabilities	<u>1,569,321</u>	<u>1,397,141</u>	<u>1,447,135</u>
Total Liabilities	<u>1,660,237</u>	<u>1,473,159</u>	<u>1,510,520</u>
Net Assets			
Restricted	<u>762,249</u>	<u>703,834</u>	<u>664,560</u>
Total Net Assets	<u>\$ 762,249</u>	<u>\$ 703,834</u>	<u>\$ 664,560</u>

Total assets have increased over the years as the SRF Programs continued to mature, manage new and existing projects, and receive new grants. As new and existing projects are undertaken and completed, additional bonds on behalf of the SRF Programs are issued in order to fund the projects. Therefore, long-term liabilities have also increased to meet the needs of participants.

# FINANCIAL ANALYSIS (CONTINUED)

## State Revolving Fund Programs' Changes in Net Assets (In Thousands of Dollars)

	Years Ended June 30,		
	2006	2005	2004
Operating Revenues			
Interest-investments	\$ 60,573	\$ 43,400	\$ 37,747
Interest-participants	36,992	32,843	27,666
Other	501	720	937
Total operating revenues	<u>98,066</u>	<u>76,963</u>	<u>66,350</u>
Operating Expenses			
Interest	69,301	67,536	57,328
Amortization of deferred charges	1,014	1,196	1,204
Trustee fees	999	1,198	549
Other program and administrative	1,620	2,474	1,909
Total operating expenses	<u>72,934</u>	<u>72,404</u>	<u>60,990</u>
Operating Income	25,132	4,559	5,360
Capital Contributions (EPA Grants)	<u>33,283</u>	<u>34,715</u>	<u>62,789</u>
Increase in Net Assets	58,415	39,274	68,149
Net Assets:			
Beginning of Year	<u>703,834</u>	<u>664,560</u>	<u>596,411</u>
End of Year	<u>\$762,249</u>	<u>\$703,834</u>	<u>\$664,560</u>

The SRF Programs' net assets increased by \$58.4 million during the current fiscal year. Key elements of this increase are as follows:

- The SRF Programs received \$33.3 million in capital contributions (grants) from EPA on qualified wastewater and drinking water projects and related program purposes.
- Interest income on investments and loans increased \$21.3 million from the prior year.

## DEBT ADMINISTRATION

**Long-term Debt:** At the end of the current fiscal year, the SRF Programs' debt, net of premium/discount and unamortized loss on refunding, was \$1.63 billion. The amount due represents bonds issued solely for the State Revolving Fund Programs. By operation of law, effective May 15, 2005, the outstanding bonds of the Indiana Bond Bank related to the SRF Programs became the obligations of the Authority instead of the Indiana Bond Bank. For years ending on, or before, June 30, 2005, these obligations were previously reported as *Due to Indiana Bond Bank* liabilities of the SRF Programs. For the comparative financial statements for the years ended June 30, 2006 and 2005, such are reported as bonds payable of the SRF Programs.

### State Revolving Fund Programs' Outstanding Debt (In Thousands of Dollars)

	Years Ended June 30,		
	2006	2005	2004
Net Bond Indebtedness	\$1,629,658	\$1,443,836	\$1,485,652

The SRF Programs' debt increased by \$185.8 million during the current fiscal year. The net increase in debt is the result of proceeds of \$512.3 million related to the issuance of Series 2005A refunding bonds and new Series 2006A bonds during the current fiscal year. New debt was offset by a combination of scheduled principal payments and payments made to escrow related to the refunding bonds totaling \$326.5 million.

Additional information on the SRF Programs' long-term debt can be found in Notes 7 and 8 to the combined financial statements on pages 16-21 of this report.

## REQUESTS OF INFORMATION

This financial report is designed to provide a general overview of the SRF Programs' finances for all those with an interest in the SRF Programs' finances. Questions concerning any of the information should be addressed to the State Revolving Fund Wastewater and Drinking Water Programs, 100 N. Senate Avenue, Room 1275, IGCN – 12<sup>th</sup> Floor, Indianapolis, IN 46204.



**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF NET ASSETS  
June 30, 2006 and 2005**

	2006	2005
<b>ASSETS</b>		
Current Assets:		
Cash and equivalents	\$ 624,323,282	\$ 571,622,475
Interest receivable	28,868,400	28,267,288
Due from EPA	31,492,895	-
Loans receivable	54,699,467	41,273,637
Total Current Assets	<u>739,384,044</u>	<u>641,163,400</u>
Noncurrent Assets:		
Investments	569,784,824	528,353,791
Loans receivable	1,103,928,196	996,278,900
Deferred charges, net	9,389,437	11,197,320
Total Noncurrent Assets	<u>1,683,102,457</u>	<u>1,535,830,011</u>
Total Assets	<u>2,422,486,501</u>	<u>2,176,993,411</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Interest payable	30,025,939	29,125,555
Accounts payable	220,211	197,364
Bonds payable-current, net	60,670,000	46,695,000
Total Current Liabilities	<u>90,916,150</u>	<u>76,017,919</u>
Long-term Liabilities:		
Amount due to federal government	333,000	-
Bonds payable, net	1,568,988,127	1,397,141,278
Total Long-term Liabilities	<u>1,569,321,127</u>	<u>1,397,141,278</u>
Total Liabilities	<u>1,660,237,277</u>	<u>1,473,159,197</u>
<b>NET ASSETS</b>		
Restricted for water pollution and drinking water projects and other related program purposes	<u>\$ 762,249,224</u>	<u>\$ 703,834,214</u>

*See accompanying notes.*

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
Years Ended June 30, 2006 and 2005**

	2006	2005
<b>OPERATING REVENUE</b>		
Interest income-investments	\$ 60,572,534	\$ 43,400,540
Interest income-loan participants	36,992,165	32,843,079
Other	501,438	719,742
Total Operating Revenue	<u>98,066,137</u>	<u>76,963,361</u>
<b>OPERATING EXPENSES</b>		
Interest	69,300,623	67,536,022
Amortization of deferred charges	1,013,570	1,195,739
Trustee fees	999,452	1,198,638
Other program and administrative	1,620,527	2,473,860
Total Operating Expenses	<u>72,934,172</u>	<u>72,404,259</u>
<b>OPERATING INCOME</b>	25,131,965	4,559,102
<b>CAPITAL CONTRIBUTIONS</b>	<u>33,283,045</u>	<u>34,714,559</u>
<b>INCREASE IN NET ASSETS</b>	58,415,010	39,273,661
<b>NET ASSETS</b>		
Beginning of Year	<u>703,834,214</u>	<u>664,560,553</u>
End of Year	<u>\$ 762,249,224</u>	<u>\$ 703,834,214</u>

*See accompanying notes.*

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2006 and 2005**

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments for salaries, administrative and other expenses	\$ (2,597,132)	\$ (3,622,911)
Administration fee	27,000	30,000
Other operating income	474,438	689,742
Net Cash (Used) by Operating Activities	<u>(2,095,694)</u>	<u>(2,903,169)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of loans to participants	49,855,891	46,569,205
Issuance of loans to participants	(170,931,017)	(192,365,150)
Change in investments	(41,431,033)	13,436,028
Interest received on loans and investments	96,963,587	76,243,619
Net Cash (Used) by Investing Activities	<u>(65,542,572)</u>	<u>(56,116,298)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Proceeds from debt issuance	512,249,918	-
Principal payments to reduce indebtedness including refunding	(326,428,069)	(39,365,000)
Payment of debt issuance costs, net of refunding	794,313	(825,277)
Change in amount due to federal government	333,000	(847,415)
Interest paid on debt	(68,400,239)	(64,573,704)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>118,548,923</u>	<u>(105,611,396)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Capital contributions (EPA grants)	1,790,150	75,418,182
Net Cash Provided by Capital Financing Activities	<u>1,790,150</u>	<u>75,418,182</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	52,700,807	(89,212,681)
<b>CASH AND EQUIVALENTS</b>		
Beginning of Year	<u>571,622,475</u>	<u>660,835,156</u>
End of Year	<u>\$ 624,323,282</u>	<u>\$ 571,622,475</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>		
Operating income	\$ 25,131,965	\$ 4,559,102
Adjustments to reconcile operating income to net cash used by operating activities:		
Interest income	(97,564,699)	(76,243,619)
Interest expense	69,300,623	67,536,022
Amortization of deferred charges	1,013,570	1,195,739
Changes in assets and liabilities:		
Accounts payable	<u>22,847</u>	<u>49,587</u>
Net Cash (Used) by Operating Activities	<u>\$ (2,095,694)</u>	<u>\$ (2,903,169)</u>

*See accompanying notes.*

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**NOTES TO COMBINED FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of the Wastewater State Revolving Fund Program (WSRF) and the Drinking Water State Revolving Fund Program (DWSRF), collectively known as the State Revolving Fund Programs (the SRF Programs), conform to generally accepted accounting principles as applicable to governmental units in the United States. The following is a summary of significant policies:

**Reporting Entity:** The accompanying combined financial statements report only on the financial activities associated with the SRF Programs, which are an enterprise fund of the Indiana Finance Authority (Authority). The combined financial statements do not represent a comprehensive annual financial report of the Authority.

**Principles of Combination:** The combined financial statements of the Programs include the accounts of the WSRF and the DWSRF. All significant intercompany accounts and transactions between the individual programs have been eliminated.

**Basis of Presentation and Accounting:** The Programs are accounted for as Enterprise Funds. An Enterprise Fund is used to account for an operation where periodic determination of revenues earned, expenses incurred, and net income on an accrual basis is appropriate (accrual method). Accordingly, the State Revolving Fund Programs recognize revenues in the period earned and expenses in the period incurred. Financial transactions are reported as business-type activities.

The SRF Programs follow the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the SRF Programs follow all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless pronouncements conflict with or contradict GASB Statements.

**The Wastewater State Revolving Fund Program and Drinking Water State Revolving Fund Program:** The federal Water Quality Act of 1987 as amended in 1996, authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State of Indiana (State) originally established a water pollution control revolving fund program to provide financial assistance, essentially, to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State also had established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

By operation of law, effective May 15, 2005, all assets and liabilities of the SRF Programs (including the outstanding bonds of the Indiana Bond Bank related to the SRF Programs) became the assets and liabilities of the Indiana Finance Authority instead of the State or the Indiana Bond Bank. For years ending on, or before, June 30, 2005, these assets and liabilities of the SRF Programs were previously reported as part of the respective financial statements of the State and/or the Indiana Bond Bank. For the comparative financial statements for the years ended June 30, 2006 and 2005, such are reported as the Authority's assets and liabilities related to the SRF Programs.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Authority has capitalized its WSRF and DWSRF Programs with payments made under capitalization grants and with required state matching funds. Payments under, and the use of capitalization grants, are subject to federal law and regulated by the federal government, acting through the EPA.

Under the WSRF and DWSRF Acts, the Authority has responsibility for the administration and management of the WSRF and DWSRF Programs. The Authority entered into Trust Indentures with JP Morgan Trust Company, N.A. to establish a series of separate funds and accounts for operation of the SRF Programs. The indentures create state revolving funds (the Funds) and govern the use of certain bond proceeds and capitalization grants under the Water Quality Act and the DWSRF Act. The SRF Programs are being operated initially as leveraged programs, whereby the earnings on certain moneys deposited in the Funds, including payments on loans made from the Funds, are applied to pay debt service on bonds issued to finance the SRF Programs.

The capitalization grants are deposited into the reserve accounts and available to pay for the Revenue Bonds. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations. States are required to provide an additional 20 percent of the federal capitalization grant as matching funds in order to receive a grant. These matching funds have been provided through the issuance of revenue bonds payable and from the earnings on the funds. Federal contributions are funded and recognized as capital contributions when amounts are received. The Authority may use amounts of up to 4 percent of the federal capitalization grant to pay salaries and administrative costs incurred.

The Indiana Bond Bank, on behalf of the SRF Programs, issued Series 1997A, 1998A, 2000A, 2000B, 2001A, 2002A, 2002B, 2004A, 2004B and 2004C Bonds, which by operation of law effective May 15, 2005, such liabilities of the SRF Programs became the liabilities of the Authority instead of the Indiana Bond Bank. Additionally, the Authority issued Series 2005A and 2006A Bonds in respect of the SRF Programs. Such liabilities are summarized in Note 8 and are secured by a common trust estate supported in part by participant loan repayments.

***Restricted Net Assets*** are available for providing financial assistance related to water pollution control and drinking water projects and other program purposes.

***Cash and Equivalents*** are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

***Investments*** are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2006 and 2005, market approximates cost. Changes in the fair value of investments are included in the combined statement of revenues, expenses and changes in net assets.

***Estimates:*** Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

***Operating Revenues and Expenses*** generally result from providing services. Operating expenses include the cost of providing services and interest on debt. For enterprise funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, and include capital contributions.

## NOTE 2 - CASH AND INVESTMENTS

All cash and investments are held by, or in the name of, JP Morgan Trust Company, NA, as trustee under certain indentures of trusts (Trust Indentures) pertaining to the SRF Programs and the bonds issued in connection with the SRF Programs. Pursuant to enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the SRF Programs' investments.

For investments at June 30, 2006 and 2005, fair value approximates cost. A summary of cash and investments as of June 30, 2006 and 2005 follows:

	2006		
	Wastewater	Drinking Water	Total
Money market funds	\$ 570,652,627	\$ 53,670,655	\$ 624,323,282
Guaranteed investment contracts	453,831,243	108,664,581	562,495,824
Government obligations	1,639,000	5,650,000	7,289,000
	<u>\$ 1,026,122,870</u>	<u>\$ 167,985,236</u>	<u>\$ 1,194,108,106</u>
	2005		
	Wastewater	Drinking Water	Total
Money market funds	\$ 504,564,202	\$ 67,058,273	\$ 571,622,475
Guaranteed investment contracts	444,857,483	83,091,308	527,948,791
Government obligations	405,000	-	405,000
	<u>\$ 949,826,685</u>	<u>\$ 150,149,581</u>	<u>\$ 1,099,976,266</u>

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

### Investment Type and Interest Rate Risk Disclosure

As of June 30, 2006, the SRF Programs had the following investments and maturities (amounts are in thousands):

	Fair Value	Wastewater Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Money market funds	\$ 570,653	\$570,653			
Guaranteed investment contracts	453,831			\$45,360	\$408,471
Government obligations	<u>1,639</u>			<u>405</u>	<u>1,234</u>
	<u>\$1,026,123</u>	<u>\$570,653</u>	<u>\$ -</u>	<u>\$45,765</u>	<u>\$409,705</u>

  

	Fair Value	Drinking Water Investment Maturities (in years)			
		Less than 1	1 - 5	6 - 10	More than 10
Money market funds	\$ 53,671	\$ 53,671			
Guaranteed investment contracts	108,664				\$108,664
Government obligations	<u>5,650</u>			<u>\$ 2,500</u>	<u>3,150</u>
	<u>\$ 167,985</u>	<u>\$ 53,671</u>	<u>\$ -</u>	<u>\$ 2,500</u>	<u>\$111,814</u>

### Credit Risk Disclosure

The following table (in thousands of dollars) provides information on the credit ratings associated with the SRF Programs' investments in debt securities, excluding obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government at June 30, 2006:

	S&P	Fitch	Moody's	Fair Value
Money market funds	Unrated	Unrated	Unrated	\$ 624,323
Guaranteed investment contracts	Unrated	AA	Aa2	362,044
	AA1	AA+	Aa-	32,622
	AA2	AA+	Aa	5,708
U.S. Agency bonds	Unrated	AAA	Unrated	162,122
	AAA	AAA	Aaa	<u>7,289</u>
Total rated investments				<u>\$1,194,108</u>

## NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

### Custodial Credit Risk

The SRF Programs have no custodial credit risk. The investments are secured by government securities held pursuant to securities or repurchase contracts or otherwise secured by perfect security interest in the same. Such government securities are either issued or guaranteed by the United States Government, including United States Treasury obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America, including, but not limited to, mortgage participation certificates, mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities.

### Concentration of Credit Risk

The Program places no limit on the amount the SRF Programs may invest in any one issuer. The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2006:

	Wastewater	Drinking Water
JP Morgan Prime Money Market Fund	56%	32%
AIG Matched Funding Corp. GIC	30%	32%
Trinity Plus Funding Company, LLC GIC	11%	30%

## NOTE 3 - LOANS RECEIVABLE

The net proceeds from the issuance of the Bonds were deposited in the Purchase Account and are used primarily to fund loans to participants for eligible projects. The State's current intended use plans include a list of publicly-owned wastewater treatment works, a list of drinking water systems, and other projects proposed by eligible participants, which the State anticipates will be eligible for financial assistance.

The loans receivable balance at June 30, 2006 and 2005 includes actual advances for construction and related costs on eligible projects net of principal payments from participants as follows:

	Loans Receivable as of June 30, 2006	Loans Receivable as of June 30, 2005	Actual Loan Available Less Principal Repayments as of June 30, 2006
Wastewater Fund	\$ 970,432,561	\$ 871,622,556	\$1,376,718,704
Drinking Water Fund	<u>188,195,102</u>	<u>165,929,981</u>	<u>208,900,818</u>
Total All Loans	<u>\$1,158,627,663</u>	<u>\$1,037,552,537</u>	<u>\$1,585,619,522</u>

These amounts represent projects that have been submitted and approved by the SRF Programs, and the loans have been closed. Loans receivable includes current portions of \$54,699,467 at June 30, 2006 and \$41,273,637 at June 30, 2005.



**NOTE 3 - LOANS RECEIVABLE (CONTINUED)**

As of June 30, 2006, the outstanding balances of closed loans exceeding 50 percent of the total loans receivable and representing the Programs' largest borrowers are summarized below:

Name of Participant	Loans Receivable as of June 30, 2006	Loans Receivable as of June 30, 2005	Actual Loan Available Less Principal Repayments as of June 30, 2006
<b>Wastewater Fund</b>			
City of Indianapolis	\$ 179,430,358	\$ 162,543,132	\$ 346,852,000
City of Evansville	15,969,500	12,920,510	75,169,510
City of Lafayette	62,360,321	66,390,078	62,395,000
City of Fort Wayne	27,597,668	21,991,350	61,890,000
City of West Lafayette	25,663,780	26,705,557	46,665,000
City of Mishawaka	30,537,455	7,082,622	41,326,000
City of New Albany	37,018,520	38,262,560	37,018,520
City of Hammond	28,258,932	29,118,098	33,585,000
City of Bloomington	16,859,416	15,531,097	31,039,000
City of Muncie	14,235,371	14,020,000	31,035,000
City of Gary	16,965,413	18,730,938	27,860,227
City of Vincennes	26,678,023	26,875,595	26,678,024
City of Kokomo	19,575,000	19,556,233	19,575,000
<b>Drinking Water Fund</b>			
City of Bloomington	22,393,000	20,488,113	22,393,000
City of Mishawaka	21,012,271	21,718,101	21,105,000
City of East Chicago	18,370,000	1,847,205	18,370,000
City of Jasper	12,625,000	13,255,000	12,625,000
City of Huntingburg	7,166,000	7,514,000	7,166,000
Town of Syracuse	396,682	156,408	6,914,000
City of Michigan City	6,269,916	6,329,916	6,269,916
City of Beverly Shores	5,880,000	5,665,486	5,880,000

## NOTE 5 - INTEREST RECEIVABLE

Interest receivable consists of accrued interest on investments and loans to participants as follows:

Interest receivable at June 30, 2006:

	Investments	Loans	Total
Wastewater	\$12,701,110	\$11,616,459	\$24,317,569
Drinking Water	<u>2,292,638</u>	<u>2,258,193</u>	<u>4,550,831</u>
	<u>\$14,993,748</u>	<u>\$13,874,652</u>	<u>\$28,868,400</u>

Interest receivable at June 30, 2005:

	Investments	Loans	Total
Wastewater	\$12,311,564	\$11,983,184	\$24,294,748
Drinking Water	<u>1,991,100</u>	<u>1,981,440</u>	<u>3,972,540</u>
	<u>\$14,302,664</u>	<u>\$13,964,624</u>	<u>\$28,267,288</u>

## NOTE 6 - DEFERRED CHARGES, NET

Deferred charges represent bond issuance costs which are being amortized using the interest method over the life of the related bond issue. Accumulated amortization was \$5,238,319 and \$4,206,319 at June 30, 2006 and 2005, respectively. The net unamortized deferred charges were \$9,389,437 and \$11,197,320 at June 30, 2006 and 2005, respectively. Future amortization of deferred charges is as follows:

Payable In Year Ending June 30,	
2007	\$1,120,033
2008	1,038,203
2009	953,364
2010	860,986
2011	775,189
Thereafter	<u>4,641,662</u>
	<u>\$9,389,437</u>

## NOTE 7 - ARBITRAGE REBATE AND YIELD REDUCTION PAYMENTS TO U.S. TREASURY

Several series of bonds issued by the Indiana Bond Bank, succeeded by the Authority, in connection with the SRF Programs were the subject of legal opinions as of the date of their issuance to the effect that interest on such bonds was excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). Under the Code, such exclusion is conditioned on continuing compliance with certain tax covenants including payment of certain earnings in excess of the bond yield to the U.S. Treasury as rebate or yield reduction payments. The estimated liabilities, which were calculated as of January 31, 2006, are recorded in the general long-term debt account group. With respect to such bonds, as of June 30, 2006, the SRF Programs had the following liabilities:

2000A	Yield Reduction	Due Date
Wastewater Fund	\$ 283,416	January 31, 2010
Drinking Water Fund	<u>49,584</u>	January 31, 2010
	<u>\$ 333,000</u>	

## NOTE 8 – BONDS PAYABLE

Bonds payable at June 30, 2006 and 2005 for bonds issued on behalf of the SRF Programs are summarized as follows:

	2006	2005
<b>Wastewater Fund:</b>		
Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$203,760,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$203,760,000	\$ -
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$197,950,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	197,950,000	-
Series 2004A Refunding Bonds issued April 7, 2004 for the aggregate amount of \$113,115,000 to refund the callable portion of the Series 1994A and 1995A Bonds, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 1.74% to 3.98%.	87,315,000	101,300,000
Series 2004B Bonds issued April 7, 2004 for the aggregate amounts of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$167,480,000 was the final allocation to the WSRF program based upon the percentage of original bond proceeds allocated to each program.	161,653,869	164,456,986
Series 2004C Bonds issued June 23, 2004 for the aggregate amount of \$200,000,000, maturing serially through February 1, 2027 at interest rates ranging from 5.00% to 5.25%.	194,850,000	200,000,000
Series 2002A Refunding Bonds issued December 23, 2002 for the aggregate amount of \$75,070,000 to refund the callable portion of the Series 1993A Bonds, maturing from February 1, 2004 to February 1, 2013 at interest rates ranging from 1.86% to 4.84%.	54,315,000	62,090,000
Series 2002B Bonds issued December 23, 2002 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates from 4.00% to 5.375%. Of this amount, \$52,422,270 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$3,775,000 was refunded. The remaining \$48,647,003 maturing from February 1, 2013 to February 1, 2024.	48,647,003	52,422,270

**NOTE 8 - BONDS PAYABLE (CONTINUED)**

	2006	2005
<b>Wastewater Fund:</b>		
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates from 3.5% to 5.5%. Of this amount, \$320,104,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,885,000 was refunded. The remaining \$312,705,534 maturing from February 1, 2006 to February 1, 2023.	\$ 312,705,534	\$ 317,451,138
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing August 1, 2019 to August 1, 2023 at interest rates from 5.00% to 5.35%. Of this amount, \$69,950,000 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$55,244,542 was refunded. The remaining \$14,706,730 maturing from August 1, 2006 to August 1, 2023.	14,706,730	69,950,000
Series 2000A Bonds issued April 25, 2000 for the aggregate amount of \$143,590,000, maturing serially through August 1, 2022 at interest rates from 4.75% to 5.875%. Of this amount, \$122,197,429 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$74,273,678 was refunded. The remaining \$32,621,513 maturing from August 1, 2006 to August 1, 2012.	32,621,513	110,690,164
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates from 4.00% to 5.00%. Of this amount, \$67,750,534 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$25,983,504 was refunded. The remaining \$32,964,994 maturing from February 1, 2006 to February 1, 2020.	32,964,994	58,993,172
Series 1997A Bonds issued September 1, 1997 for the aggregate amount of \$85,000,000, maturing serially through February 1, 2019 at interest rates from 4.50% to 6.00%. In December 2005, \$62,425,000 was refunded. The remaining \$14,410,000 maturing from February 1, 2007 to February 1, 2010.	<u>14,410,000</u>	<u>76,835,000</u>
Subtotal-Wastewater	<u>1,355,899,643</u>	<u>1,214,188,730</u>

# NOTE 8 – BONDS PAYABLE (CONTINUED)

	2006	2005
<b>Drinking Water Fund:</b>		
Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$17,595,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$17,595,000	\$ -
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$77,535,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	77,535,000	-
Series 2004B Bonds issued April 7, 2004 for aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$32,520,000 was the final allocation to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	31,381,131	31,933,014
Series 2002B Bonds issued December 23, 2004 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates from 4.00% to 5.375%. Of this amount, \$14,272,730 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,165,000 was refunded. The remaining \$12,107,997 maturing from February 1, 2013 to February 1, 2024.	12,107,997	14,272,730
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2004 to February 1, 2023 at interest rates from 3.5% to 5.5%. Of this amount, \$79,896,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$16,600,000 was refunded. The remaining \$61,444,466 maturing from February 1, 2006 to February 1, 2023.	61,444,466	79,233,862
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing August 1, 2019 to August 1, 2023 at interest rates from 5.00% to 5.35%. Of this amount, \$30,050,000 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$17,100,458 was refunded. The remaining \$12,948,270 maturing from August 1, 2006 to August 1, 2023.	12,948,270	30,050,000

# NOTE 8 - BONDS PAYABLE (CONTINUED)

	2006	2005
<b>Drinking Water Fund:</b>		
Series 2000A Bonds issued April 25, 2000 for the aggregate of \$143,590,00, maturing serially through August 1, 2022 at interest rates from 4.75% to 5.875%. Of this amount, \$21,392,571 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.		
In December 2005, \$13,006,322 was refunded. The remaining \$5,708,487 maturing from August 1, 2006 to August 1, 2012.		
	\$ 5,708,487	\$ 19,369,836
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates from 4.00% to 5.00%. Of this amount, \$22,249,466 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program.		
In December 2005, \$10,421,496 was refunded. The remaining \$8,145,006 maturing from February 1, 2006 to February 1, 2020.		
	<u>8,145,006</u>	<u>19,371,828</u>
Subtotal-Drinking Water	<u>226,865,357</u>	<u>194,231,270</u>
Total Principal	1,582,765,000	1,408,420,000
Loss on refunding	(17,766,075)	(4,294,288)
Net premium (discount) on bonds payable	<u>64,659,202</u>	<u>39,710,566</u>
Total Bonds Payable	1,629,658,127	1,443,836,278
Less: Current portion	<u>60,670,000</u>	<u>46,695,000</u>
Long-Term Portion	<u>\$1,568,988,127</u>	<u>\$1,397,141,278</u>

In April 2004, the Bond Bank, succeeded by the Authority, issued Series 2004A Bonds for the aggregate amount of \$113,115,000 for a current refunding of the callable portion of Series 1994A and 1995A Bonds. The refunding was undertaken to reduce total future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$4.0 million. The transaction also resulted in an economic gain of \$13.0 million and a reduction of \$18.7 million in future debt service payments.

In December 2005, the Authority issued Series 2005A Refunding Bonds for the aggregate amount of \$277,930,000, which included \$258,815,000 of refunding debt and \$19,115,000 of new money debt. The refunding was undertaken to reduce total future debt service payments. As a result of the refunding, an economic gain or present value savings of \$13.8 million was realized and a reduction of \$75.2 million in future debt service payments. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. A portion of the proceeds, \$302,453,645, was deposited in an escrow fund which will pay principal and interest for the defeased debt. The outstanding amount of refunded debt at June 30, 2006 was \$275,800,000.

# **NOTE 8 – BONDS PAYABLE (CONTINUED)**

The aggregate debt service requirements for all bonds allocable to the Program as of June 30, 2006, are as follows:

	<b>Principal</b>			<b>Interest</b>			<b>Debt Service Total</b>
	<b>Wastewater Fund</b>	<b>Drinking Water Fund</b>	<b>Total</b>	<b>Wastewater Fund</b>	<b>Drinking Water Fund</b>	<b>Total</b>	
2007	\$ 52,755,879	\$ 7,914,121	\$ 60,670,000	\$ 64,341,886	\$ 11,128,869	\$ 75,470,755	\$ 136,140,755
2008	59,210,841	8,429,159	67,640,000	64,577,442	10,982,757	75,560,199	143,200,199
2009	60,850,638	8,789,362	69,640,000	62,099,020	10,625,047	72,724,067	142,364,067
2010	69,004,441	10,595,559	79,600,000	59,410,117	10,187,097	69,597,214	149,197,214
2011	72,363,687	10,926,313	83,290,000	56,192,604	9,654,344	65,846,948	149,136,948
2012-2016	395,389,455	60,570,545	455,960,000	225,343,252	39,586,987	264,930,239	720,890,239
2017-2021	409,931,153	74,293,847	484,225,000	120,079,358	22,725,574	142,804,932	627,029,932
2022-2026	219,628,549	41,036,451	260,665,000	32,683,023	5,600,095	38,283,118	298,948,118
2027-2029	<u>16,765,000</u>	<u>4,310,000</u>	<u>21,075,000</u>	<u>863,863</u>	<u>392,719</u>	<u>1,256,582</u>	<u>22,331,582</u>
	1,355,899,643	226,865,357	1,582,765,000	685,590,565	120,883,489	806,474,054	2,389,239,054
Loss on Refunding	(14,297,096)	(3,468,979)	(17,766,075)	-	-	-	(17,766,075)
Premium/ (Discount)	<u>55,199,374</u>	<u>9,459,828</u>	<u>64,659,202</u>	-	-	-	<u>64,659,202</u>
Total	<u>\$1,396,801,921</u>	<u>\$232,856,206</u>	<u>\$1,629,658,127</u>	<u>\$685,590,565</u>	<u>\$120,883,489</u>	<u>\$806,474,054</u>	<u>\$2,436,132,181</u>

The following is a summary of total debt service:

	<b>Interest Rates Ranges</b>	<b>Maturity Range</b>	<b>Annual Payment Range</b>	<b>Principal</b>
Wastewater Fund	1.74%-6.00%	2007-2029	\$837,053 - \$89,014,966	\$1,355,899,643
Drinking Water Fund	2.00%-5.88%	2007-2029	327,947 - 18,852,766	<u>226,865,357</u>
Combined Programs	3.30%-5.88%	2007-2029	1,165,000 - 106,400,000	1,582,765,000
Less: Current Portion				<u>60,670,000</u>
Total Long-term Portion				<u>\$1,522,095,000</u>

# NOTE 9 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2006 and 2005 was as follows:

## June 30, 2006:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due Thereafter
Amount due to federal government	\$ -	\$ 333,000	\$ -	\$ 333,000	\$ -	\$ 333,000
Bonds payable	1,408,420,000	200,861,139	26,516,139	1,582,765,000	60,670,000	1,522,095,000
Loss on refunding	(4,294,288)	-	13,471,787	(17,766,075)	-	(17,766,075)
Net premium on bonds payable	39,710,566	24,948,636	-	64,659,202	-	64,659,202
	<u>\$1,443,836,278</u>	<u>\$226,142,775</u>	<u>\$39,987,926</u>	<u>\$1,629,991,127</u>	<u>\$60,670,000</u>	<u>\$1,569,321,127</u>

## June 30, 2005:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due Thereafter
Amount due to federal government	\$ 847,415	\$ -	\$ 847,415	\$ -	\$ -	\$ -
Bonds payable	1,447,785,000	\$1,386,792	39,365,000	1,408,420,000	46,695,000	1,361,725,000
Loss on refunding	(5,681,080)	-	-	(4,294,288)	-	(4,294,288)
Net premium on bonds payable	43,548,139	-	3,837,573	39,710,566	-	39,710,566
	<u>\$1,486,499,474</u>	<u>\$1,386,792</u>	<u>\$44,049,988</u>	<u>\$1,443,836,278</u>	<u>\$46,695,000</u>	<u>\$1,397,141,278</u>



## NOTE 9 – FUND TRANSFERS

Consistent with its Intended Use Plans and EPA's related Policy Statement, the State is required to report on transfers between the Drinking Water SRF and the Wastewater SRF in its Financial Statements. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2006, an amount up to 33% of the Safe Drinking Water Act grants for Federal Fiscal Years (FFY) 1997 through 2006 could be so transferred on a net cumulative basis between the two SRF funds.

Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2006, to date, the following transfers were made:

2001	\$20,464,898
2002	3,270,417

Transfers were made from the Restricted Subaccount of the Wastewater Equity Account (known as the Wastewater Grant Account as of June 30, 2006) held under the Wastewater Indenture (which represents Federal grants previously converted to cash and deposited in that account) to the Drinking Water Trustee deposit in the Restricted Subaccount of the Drinking Water Equity Account (known as the Drinking Water Grant Account as of June 30, 2006) held under the Drinking Water Indenture.

## NOTE 10 – PROGRAM REVENUE

For the years ended June 30, 2006 and 2005, program revenues consisted of the following:

	2006	2005
Operating grants and contributions	\$ 98,066,137	\$ 76,963,361
Capital grants and contributions	<u>33,283,045</u>	<u>34,714,559</u>
	<u>\$131,349,182</u>	<u>\$111,677,920</u>

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*Independent Auditors' Report  
on Combining Schedules*

Indiana Finance Authority  
State Revolving Fund Programs

Our report on our audits of the basic combined financial statements of the State Revolving Fund Programs for the years ended June 30, 2006 and 2005, appears on pages 1-2. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining schedules are presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations and cash flows of the individual programs. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

*Katz, Sapper & Miller, LLP*

Indianapolis, Indiana  
October 11, 2006

**STATE REVOLVING FUND PROGRAMS**  
**(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**  
**COMBINING SCHEDULES-STATEMENTS OF NET ASSETS INFORMATION**  
**June 30, 2006 and 2005**

	Wastewater Program		Drinking Water Program		Combined	
	2006	2005	2006	2005	2006	2005
<b>ASSETS</b>						
Current Assets:						
Cash and equivalents						
Interest receivable-investments	\$ 570,652,627	\$ 504,564,202	\$ 53,670,655	\$ 67,058,273	\$ 624,323,282	\$ 571,622,475
Interest receivable-loans	12,701,110	12,311,564	2,292,638	1,991,100	14,993,748	14,302,664
Due from EPA	11,616,459	11,983,184	2,258,193	1,981,440	13,874,652	13,964,624
Loans receivable	21,135,427	-	10,357,468	-	31,492,895	-
Total Current Assets	47,077,155	34,663,552	7,622,312	6,610,085	54,699,467	41,273,637
	<u>663,182,778</u>	<u>563,522,502</u>	<u>76,201,266</u>	<u>77,640,898</u>	<u>739,384,044</u>	<u>641,163,400</u>
Noncurrent Assets:						
Investments						
Loans receivable	455,470,243	445,262,483	114,314,581	83,091,308	569,784,824	528,353,791
Deferred charges, net	923,355,406	836,959,004	180,572,790	159,319,896	1,103,928,196	996,278,900
Total Noncurrent Assets	8,129,728	9,904,622	1,259,709	1,292,698	9,389,437	11,197,320
	<u>1,386,955,377</u>	<u>1,292,126,109</u>	<u>296,147,080</u>	<u>243,703,902</u>	<u>1,683,102,457</u>	<u>1,535,830,011</u>
Total Assets	<u>2,050,138,155</u>	<u>1,855,648,611</u>	<u>372,348,346</u>	<u>321,344,800</u>	<u>2,422,486,501</u>	<u>2,176,993,411</u>
<b>LIABILITIES</b>						
Current Liabilities:						
Interest payable						
Accounts payable	25,499,097	24,947,305	4,526,842	4,178,250	30,025,939	29,125,555
Bonds payable-current, net	217,780	197,364	2,431	-	220,211	197,364
Total Current Liabilities	55,250,680	43,449,020	5,419,320	3,245,980	60,670,000	46,695,000
	<u>80,967,557</u>	<u>68,593,689</u>	<u>9,948,593</u>	<u>7,424,230</u>	<u>90,916,150</u>	<u>76,017,919</u>
Long-term Liabilities:						
Amount due to federal government						
Bonds payable, net	283,416	-	49,584	-	333,000	-
Total Long-term Liabilities	1,341,551,241	1,201,005,102	227,436,886	196,136,176	1,568,988,127	1,397,141,278
	<u>1,341,834,657</u>	<u>1,201,005,102</u>	<u>227,486,470</u>	<u>196,136,176</u>	<u>1,569,321,127</u>	<u>1,397,141,278</u>
Total Liabilities	<u>1,422,802,214</u>	<u>1,269,598,791</u>	<u>237,435,063</u>	<u>203,560,406</u>	<u>1,660,237,277</u>	<u>1,473,159,197</u>
<b>NET ASSETS</b>						
Restricted for water pollution and drinking water projects and other related program purposes	\$ 627,335,941	\$ 586,049,820	\$ 134,913,283	\$ 117,784,394	\$ 762,249,224	\$ 703,834,214

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINING SCHEDULES-STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION**  
Years Ended June 30, 2006 and 2005

	Wastewater Program 2006	Wastewater Program 2005	Drinking Water Program 2006	Drinking Water Program 2005	2006	Combined 2005
<b>OPERATING REVENUE</b>						
Interest income-investments	\$ 51,778,624	\$ 37,633,332	\$ 8,793,910	\$ 5,767,208	\$ 60,572,534	\$ 43,400,540
Interest income-loan participants	31,426,935	27,826,563	5,565,230	5,016,516	36,992,165	32,843,079
Administration fee	19,000	20,000	8,000	10,000	27,000	30,000
Other	-	-	474,438	689,742	474,438	689,742
Total Operating Revenue	<u>83,224,559</u>	<u>65,479,895</u>	<u>14,841,578</u>	<u>11,483,466</u>	<u>98,066,137</u>	<u>76,963,361</u>
<b>OPERATING EXPENSES</b>						
Interest	59,444,660	58,147,536	9,855,963	9,388,486	69,300,623	67,536,022
Amortization of deferred charges	907,497	1,058,015	106,073	137,724	1,013,570	1,195,739
Trustee fees	903,599	1,076,678	95,853	121,960	999,452	1,198,638
Other program and administrative	1,142,209	1,784,118	478,318	689,742	1,620,527	2,473,860
Total Operating Expenses	<u>62,397,965</u>	<u>62,066,347</u>	<u>10,536,207</u>	<u>10,337,912</u>	<u>72,934,172</u>	<u>72,404,259</u>
<b>OPERATING INCOME</b>	20,826,594	3,413,548	4,305,371	1,145,554	25,131,965	4,559,102
<b>CAPITAL CONTRIBUTIONS</b>	<u>21,135,427</u>	<u>25,969,581</u>	<u>12,147,618</u>	<u>8,744,978</u>	<u>33,283,045</u>	<u>34,714,559</u>
<b>INCREASE IN NET ASSETS</b>	41,962,021	29,383,129	16,452,989	9,890,532	58,415,010	39,273,661
<b>TRANSFERS</b>	(675,900)	-	675,900	-	-	-
<b>NET ASSETS</b>						
Beginning of Year	586,049,820	556,666,691	117,784,394	107,893,862	703,834,214	664,560,553
End of Year	<u>\$ 627,335,941</u>	<u>\$ 586,049,820</u>	<u>\$ 134,913,283</u>	<u>\$ 117,784,394</u>	<u>\$ 762,249,224</u>	<u>\$ 703,834,214</u>

**STATE REVOLVING FUND PROGRAMS  
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINING SCHEDULES-STATEMENTS OF CASH FLOWS INFORMATION  
Years Ended June 30, 2006 and 2005**

	Wastewater Program 2006	Wastewater Program 2005	Drinking Water Program 2006	Drinking Water Program 2005	2006	Combined 2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Cash payments for salaries, administrative and other expenses	\$ (2,025,392)	\$ (2,811,209)	\$ (571,740)	\$ (811,702)	\$ (2,597,132)	\$ (3,622,911)
Administration fee	19,000	20,000	8,000	10,000	27,000	30,000
Other operating income	-	-	474,438	689,742	474,438	689,742
Net Cash (Used) by Operating Activities	<u>(2,006,392)</u>	<u>(2,791,209)</u>	<u>(89,302)</u>	<u>(111,960)</u>	<u>(2,095,694)</u>	<u>(2,903,169)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Maturities of loans to participants	43,253,938	36,801,625	6,601,953	9,767,580	49,855,891	46,569,205
Issuance of loans to participants	(142,063,943)	(174,888,507)	(28,867,074)	(17,476,643)	(170,931,017)	(192,365,150)
Change in investments	(10,883,660)	10,112,131	(30,547,373)	3,323,897	(41,431,033)	13,436,028
Interest received on loans and investments	83,182,738	65,459,895	13,780,849	10,783,724	96,963,587	76,243,619
Net Cash Provided (Used) by Investing Activities	<u>(26,510,927)</u>	<u>(62,514,856)</u>	<u>(39,031,645)</u>	<u>6,398,558</u>	<u>(65,542,572)</u>	<u>(56,116,298)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>						
Proceeds from debt issuance	412,913,482	-	99,336,436	-	512,249,918	-
Principal payments to reduce indebtedness including refunding	(260,565,683)	(36,826,690)	(65,862,386)	(2,538,310)	(326,428,069)	(39,365,000)
Payment of debt issuance costs, net of refunding	867,397	(785,202)	(73,084)	(40,075)	794,313	(825,277)
Change in amount due to federal government	283,416	(721,151)	49,584	(126,264)	333,000	(847,415)
Interest paid on debt	(58,892,868)	(54,758,063)	(9,507,371)	(9,815,641)	(68,400,239)	(64,573,704)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>94,605,744</u>	<u>(93,091,106)</u>	<u>23,943,179</u>	<u>(12,520,290)</u>	<u>118,548,923</u>	<u>(105,611,396)</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>						
Capital Contributions (EPA Grants)	-	57,908,862	1,790,150	17,509,320	1,790,150	75,418,182
Net Cash Provided by Capital Financing Activities	<u>-</u>	<u>57,908,862</u>	<u>1,790,150</u>	<u>17,509,320</u>	<u>1,790,150</u>	<u>75,418,182</u>
<b>NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS</b>	66,088,425	(100,488,309)	(13,387,618)	11,275,628	52,700,807	(89,212,681)
<b>CASH AND EQUIVALENTS</b>						
Beginning of Year	504,564,202	605,052,511	67,058,273	55,782,645	571,622,475	660,835,156
End of Year	<u>\$ 570,652,627</u>	<u>\$ 504,564,202</u>	<u>\$ 53,670,655</u>	<u>\$ 67,058,273</u>	<u>\$ 624,323,282</u>	<u>\$ 571,622,475</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES</b>						
Operating income	\$ 20,826,594	\$ 3,413,548	\$ 4,305,371	\$ 1,145,554	\$ 25,131,965	\$ 4,559,102
Adjustments to reconcile operating income to net cash used by operating activities:						
Interest income	(83,205,559)	(65,459,895)	(14,359,140)	(10,783,724)	(97,564,699)	(76,243,619)
Interest expense	59,444,660	58,147,536	9,855,963	9,388,486	69,300,623	67,536,022
Amortization of deferred charges	907,497	1,058,015	106,073	137,724	1,013,570	1,195,739
Changes in assets and liabilities:						
Accounts payable	20,416	49,587	2,431	-	22,847	49,587
Net Cash (Used) by Operating Activities	<u>\$ (2,006,392)</u>	<u>\$ (2,791,209)</u>	<u>\$ (89,302)</u>	<u>\$ (111,960)</u>	<u>\$ (2,095,694)</u>	<u>\$ (2,903,169)</u>